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January 4, 2002

VIA E-MAIL

PUBLIC DOCUMENT

The Honorable Robert B. Zoellick
U.S. Trade Representative
OFFICE OF THE U.S. TRADE REPRESENTATIVE
600 17th Street, N.W.
Washington, D.C. 20508

This Letter Contains No Confidential Business Information

cc: Mr. Andrew Stephens
DIRECTOR FOR STEEL TRADE POLICY

Re: ***Comments on Remedies for Stainless Steel Wire and Rod***

Dear Mr. Ambassador:

On behalf of the members of the AMERICAN WIRE PRODUCERS ASSOCIATION ("AWPA"), a trade association whose members produce and sell *inter alia* stainless steel wire in the United States,[1/] we respectfully submit the following written comments on the most effective and appropriate remedies for stainless steel wire and rod under Section 203 of the *Trade Act of 1974, as amended* (19 U.S.C. § 2253). These comments are being submitted in accordance with the

1/ The Stainless Committee of the AWPA includes more than a dozen U.S. manufacturers of stainless steel wire which account for the vast majority of stainless steel wire produced in the United States. They also account for the overwhelming percentage of stainless steel wire rod consumed in the United States.

notice published by the OFFICE OF THE UNITED STATES TRADE REPRESENTATIVE on October 26, 2001,[2/] and subsequently amended on December 28, 2001.[3/]

I. THE MOST EFFECTIVE REMEDY FOR STAINLESS STEEL WIRE IS AN INCREASED TARIFF FOR A THREE-YEAR PERIOD

In the remedy phase of its investigation, the U.S. INTERNATIONAL TRADE COMMISSION ("COMMISSION") overwhelmingly recommended higher duties for all stainless steel products — including wire and rod.[4/] The Stainless Committee of the AWPA supports the imposition of a three-year tariff remedy for stainless steel wire. In particular, the AWPA would recommend a tariff of 30 percent during the first year of the remedy, declining to 25 percent in the second year, and 20 percent in the third and final year.

The initial tariff of 30 percent is based on the margins of underselling found by the COMMISSION in its injury investigation. For stainless wire, the margins of underselling were as high as 32.1 percent. Therefore, only a 30-percent tariff will effectively eliminate the pervasive

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2/ *Trade Policy Staff Committee: Public Comments on Potential Action under Section 203 of the Trade Act of 1974 with Regard to Imports of Certain Steel*, 66 Fed. Reg. 54,321 (October 26, 2001) (hereinafter, the "*TPSC Public Comments Notice*").

3/ *Trade Policy Staff Committee: Extension of Deadline for the Submission of Written Comments on What Action, If Any, the President Should Take under Section 203 of the Trade Act of 1974 with Regard to Imports of Certain Steel and Responses to Such Comments*, 66 Fed. Reg. 67,349 (December 28, 2001).

4/ Three members of the COMMISSION found that increased imports were a substantial cause of serious injury or threat thereof to the domestic stainless wire industry. The statute permits the PRESIDENT to determine that a split vote is an affirmative finding of serious injury. In the recent Section 201 investigation of carbon and alloy steel wire rod, the PRESIDENT determined that a similar vote by the COMMISSION (*i.e.*, three votes of no injury; two votes of serious injury; and one vote of threat) was an affirmative vote of injury and granted relief to that industry.

underselling by imports of stainless wire and allow U.S. producers to recover some of the price level sacrificed as import volumes increased.

The Stainless Committee believes that an increased tariff will provide a more effective and less disruptive remedy than a quota or other measure to temporarily limit imports. First, there is a wide variance in the types and values of stainless wire. A quota, for example, may encourage the migration of imports into the higher value products since the same quantity of merchandise would realize proportionally larger revenues. This result would distort existing market conditions and cause additional serious injury to domestic producers that have upgraded their product mix. Second, if domestic demand were to surge for a particular type of wire, a higher duty would not prevent needed material from entering the country.[5/] Third, a tariff is easier to administer than a system of quotas or other import restraints. Finally, as noted earlier, an increased duty would provide direct relief to an industry that is suffering from low-priced imports with underselling margins as high as 32 percent.

The AWPA also reiterates that it does not believe that Canada or Mexico contributed importantly to the serious injury suffered by the domestic stainless steel wire industry. Accordingly, the AWPA supports the COMMISSION's determination to exclude the NAFTA countries from any remedy on stainless steel wire or rod.

5/ A tariff remedy would also work well with a short supply provision, allowing additional supplies to be imported immediately. The AWPA supports the adoption of a short supply program in the event that domestic producers are unable to meet the demand for a certain type, grade or quality of steel. To implement such a program effectively, the standards to qualify would have to be clearly set forth in writing, and prompt determinations would have to be issued. In general terms, a short supply exception to a quota or tariff remedy could be granted under the following circumstances: (1) if there is no domestic production of the product; (2) if the domestic industry does not produce sufficient quantities of the product on a timely basis; or (3) if the domestic product is not of sufficient quality.

II. THE REMEDY IMPOSED ON STAINLESS WIRE MUST BE AT LEAST AS RESTRICTIVE AS ANY REMEDY IMPOSED ON STAINLESS ROD

In the remedy phase of the COMMISSION's investigation, there were three pairs of products with an upstream-downstream relationship: (1) hot-rolled flat steel products and other flat-rolled steel products; (2) hot-rolled bar and cold-finished bar; and (3) stainless steel wire rod and stainless steel wire. The relationship for each of these pairings is based on the fact that the upstream product is necessary for the production of the downstream product. As a result, any restrictions placed on the upstream product will have a direct impact on the industry producing the downstream product.

Based on these relationships, it seems unquestionable that the proposed remedies for the upstream industry must be crafted to take into account the effects on downstream production. The remedies recommended by the COMMISSION for the first two product pairings seem to recognize this relationship, because the COMMISSION recommended the identical remedy for hot-rolled flat products as for other flat-rolled products[6/] and also the same remedy for hot-rolled bar as for cold-finished bar. However, the COMMISSION apparently failed to consider the impact on the domestic stainless wire industry when it made its recommendations for stainless rod and wire.[7/] For stainless

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6/ *See Volume I: Determinations and Views of Commissioners*, Inv. No. TA-201-73, USITC Pub. 3479 (December 2001) at 363 ("We recommend the same additional tariff rate on all certain flat-rolled steel so as not to give rise to product shifting among imports of various types of certain carbon flat-rolled steel, whose production processes are closely interrelated.").

7/ Only Commissioner Devaney recommended identical relief for stainless rod and wire. *See id* at 541 ("While the production processes of stainless steel wire differed from bar, rod and tool steel, I believe a similar method of relief should be applied to stainless steel wire, because stainless steel rod is the feedstock for stainless steel wire. This consistency will prevent distortive effects on the stainless steel wire market due to changes in the market for stainless steel rod.").

wire more than any other downstream product, it is essential that the remedy imposed be at least as restrictive as the remedy imposed on stainless rod.[8/]

The remedy imposed on stainless wire must be at least as restrictive as any remedy imposed on stainless rod for the following reasons:

- ✦ Currently, stainless wire companies (*i.e.*, rod consumers) must contend with antidumping and countervailing duty orders on nine of the ten most significant sources of foreign stainless rod.[9/] The only significant rod supplier that has escaped these restrictions is the United Kingdom.[10/] This is particularly significant in light of the fact that there is only one established domestic producer of stainless rod supplying the U.S. market.

8/ There are two significant differences between the first two pairings and stainless rod and wire. First, the domestic stainless wire industry — with the exception of one company — must purchase its raw material input — stainless rod — in the open market. On the other hand, most producers of cold-rolled flat products also produce hot-rolled flat products, and many producers of cold-finished bar also produce hot-rolled bar. These producers are not dependent on the market for their direct inputs to the same extent that independent wire drawers are. This dependence of the U.S. wire industry is further magnified by the fact that wire rod constitutes as much as 60 percent of the cost for most stainless steel wire. For some lower grades of wire, wire rod can account for 80 to 90 percent of the cost of the finished wire. Second, there is only one established producer of stainless steel wire rod in the United States. It is CARPENTER TECHNOLOGY CORPORATION, which also produces stainless steel wire in direct competition with its customers, who are independent wire producers.

9/ In contrast, 26 countries exported stainless steel wire to the United States in 2001. None of them are subject to antidumping, countervailing, or other trade restrictions.

10/ China, Egypt, Germany, the Netherlands, and Trinidad and Tobago have each shipped less than 1,000 net tons to the United States this year. The rest of the countries supplying stainless rod to the United States — except for the United Kingdom — are under order.

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- ✦ A more restrictive remedy on imports of rod at this time would inevitably lead to downstreaming — *i.e.*, foreign producers shifting their production from stainless rod to stainless wire for the U.S. market. This situation will be exacerbated if less effective import restrictions are imposed on wire than on rod.

- ✦ A more restrictive remedy on rod than on wire could also force independent wire companies in the United States to shut down wire production and lay off employees. These companies cannot compete effectively with low-priced wire imports — often priced below the cost of production in the United States — if the cost of their raw material is increased or if the remedy imposed on rod limits availability.

III. THE AWPA SUPPORTS THE ADMINISTRATION'S EFFORTS TO ELIMINATE GLOBAL OVERCAPACITY AND SUBSIDIES ON STEEL THROUGH INTERNATIONAL NEGOTIATIONS

When PRESIDENT BUSH announced his decision to request a safeguard investigation of various steel products, he also announced his intention to pursue international negotiations with our trading partners concerning global overcapacity and government subsidies on steel. The AWPA recognizes that these problems are at the root of the dramatic increases in imports of certain steel products in recent years and the harmful price declines caused by those imports. The BUSH ADMINISTRATION's efforts to reach international agreement to address these structural problems in the global steel market are an important first step to eliminating their effect on the U.S. market.

The AWPA wholly supports these steps to develop a comprehensive solution for the global steel sector. However, the AWPA also recognizes that these negotiations have just begun, and concrete results will take some time to realize. In the meantime, it is essential that U.S. producers of stainless wire receive temporary relief from the price effects of imported wire in order to allow a period of adjustment. As set forth in our submission to the OFFICE OF THE UNITED STATES TRADE REPRESENTATIVE, dated November 5, 2001, the stainless members of the AWPA have prepared a comprehensive and realistic adjustment plan that will facilitate efforts by the stainless steel wire industry to compete more effectively with imports.

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In accordance with the *TPSC Public Comments Notice*, we are submitting these comments not later than noon on Friday, January 4, 2002. In addition, we have elected to file this submission electronically to FR0001@ustr.gov, as provided in the *TPSC Public Comments Notice*.

Please do not hesitate to contact the undersigned if you have any questions.

Respectfully submitted,

/ s /

Frederick P. Waite
Kimberly R. Young

Counsel for
STAINLESS COMMITTEE OF
THE AMERICAN WIRE PRODUCERS ASSOCIATION

FPW:daj